



NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

FOR IMMEDIATE RELEASE

July 21, 2004

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**TREASURER ANGELIDES WARNS GOVERNOR SCHWARZENEGGER HIS
BUDGET PROPOSAL AND 'NEW RANCOR' ARE HINDERING EFFORTS TO
RESTORE STATE'S CREDIT RATING, REPUTATION IN FINANCIAL MARKETS**

SACRAMENTO, CA – State Treasurer Phil Angelides today warned Governor Schwarzenegger that his budget proposal, “which continues the State’s massive deficit spending,” and “the new rancor you have ignited, will hinder our efforts to raise the State’s credit ratings and restore California’s credibility in the financial markets.” In a letter to Schwarzenegger released today at a news conference here – as the Governor left Sacramento to campaign for his budget in San Diego – Angelides urged the Governor “to return to the Capitol and concentrate your efforts on passing a budget that restores fiscal balance and enables California to finance the critical services and investments that underpin its economy and the well-being of its citizens.”

In his letter, the Treasurer pointed out that California’s low credit ratings – currently the lowest of any state in the nation – “have added hundreds of millions of dollars to the cost that the State’s citizens pay on the bonds that finance investments in schools, parks, water systems, and other infrastructure vital to our economy and quality of life – not to mention the substantial costs on the borrowings to cover its deficits.”

Also at today’s news conference, the Treasurer released two charts that illustrate the growing borrowing and accumulated debt included in what Angelides called the Governor’s “Not-So-Fantastic” spending plan for 2004-05. Despite claims of the Schwarzenegger administration to the contrary, the Treasurer said the Governor’s budget is “seriously unbalanced” because it relies on an estimated \$7.5 billion in borrowing and deferrals. Passing such a budget would leave the State with accumulated borrowing and deferrals of \$20 billion, and leave the State facing a budget shortfall in 2006-07 that will approach \$10 billion. “That is no way to improve the State’s credit rating,” Angelides said.

Angelides noted that the credit rating agencies and other participants in the financial markets have been looking to California “to make two major changes:” they want to see “a return to balanced budgets,” he said, and they want to see “signs that state leaders have the courage to come together and make the shared sacrifices and difficult and fundamental reforms necessary to achieve long-term fiscal responsibility.”

In addition, the Treasurer faulted the Governor for “campaigning around the state seeking a ‘win’ on your budget,” a reference to the Governor’s recent staged events at shopping malls and restaurants, such as today’s scheduled trip to a restaurant in San Diego. “The only win that matters for California,” Angelides said, “is the enactment of a state budget that is fiscally

responsible, that is fair, and that protects critical investments. California needs a balanced and fair budget, and it needs it now.”

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Copies of the letter to Governor Schwarzenegger and the charts discussed at today’s news conference are available on the Treasurer’s Office website, at www.treasurer.ca.gov.



PHILIP ANGELIDES
Treasurer
State of California

July 21, 2004

The Honorable Arnold Schwarzenegger
Governor
State of California
State Capitol
Sacramento, CA 95814

Dear Governor Schwarzenegger:

As the State's chief investment officer, I am writing to express my deep concern about your pending budget proposal, the now extended delay in adopting the budget, and the deeply divisive events of the past few days.

Specifically, I am concerned that your budget, which continues the State's massive deficit spending and relies on billions of dollars in new borrowing, and the new rancor you have ignited, will hinder our efforts to raise the State's credit ratings and restore California's credibility in the financial markets. I urge you to return to the Capitol and concentrate your efforts on passing a budget that truly restores fiscal balance and enables California to finance the critical services and investments that underpin its economy and the well-being of its citizens.

You have been campaigning around the State seeking a "win" on your budget. The only win that matters for California is the enactment of a State budget that is fiscally responsible, that is fair, and that protects critical investments. California needs a balanced and fair budget, and it needs it now.

As you are well aware, California currently has the lowest credit ratings among all states. The credit rating agencies downgraded the State's credit out of concern both for the seriously unbalanced budgets passed in the last three years and for the political deadlock that produced that red ink. These lowered credit ratings have added hundreds of millions of dollars to the cost that the State's citizens pay on the bonds that finance investments in schools, parks, water systems, and other infrastructure vital to our economy and quality of life – not to mention the substantial costs on the borrowings to cover its deficits.

In this office's contacts with the rating agencies and other participants in the financial markets, it is clear that investors and credit analysts are looking for California to make two major changes. First, they want to see a return to balanced budgets. Second, they want to see signs that State leaders have the courage to come together and make the shared sacrifices and difficult and fundamental reforms necessary to achieve long-term fiscal responsibility.

These demands should seem familiar; you have promised to respond to them. In successfully urging passage of Proposition 58, The California Balanced Budget Act, last March, you said, "We should not be allowed to spend more money than we have," and you noted, "The California Balanced Budget Act will PROHIBIT BORROWING TO PAY DEFICITS ever again." And you repeatedly pledged the passage of a balanced, on-time budget.

With the constitutional deadline for passing a State budget through the Legislature already more than a month past, California is still far from achieving either goal.

The budget proposal for which you are now campaigning around the State is seriously unbalanced. It relies on \$7.5 billion in borrowing and deferrals. Passing such a budget would leave the State with approximately \$20 billion in accumulated debt and deferrals from budget deficits past and present, and leave the State facing a budget shortfall in 2006-07 that will approach \$10 billion. That is no way to improve the State's credit rating.

Neither is political gamesmanship likely to lead to the kind of fundamental reforms California needs. Your decision to throw several unrelated and politically charged issues into the budget mix has delayed and complicated a fiscal resolution that is already difficult to achieve because of all the constraints placed on the budget process by initiatives and mandates. Something as important to California's future as the broken fiscal relationship between State and local government must be treated as a subject for serious debate and fundamental reform, not as a political football and quick fix for one year's budget.

The recall last autumn signaled that California voters were looking for a new kind of leadership, and a fundamental, courageous attack on the State's problems. It created an opportunity to end the State's protracted fiscal crisis and to face the future. Unfortunately your budget will doom California in the years ahead to focus on and argue about how to pay the debts of the past, not about how to better compete in the global marketplace, better educate our children, and build better communities. With the end of the recession nearly three years behind us, and with State revenues up sharply, this is the moment when the budget ought to be balanced and California's credit ratings restored.

It can be done. In the early- and mid-1990s, Gov. Wilson and the Legislature, despite their partisan differences, reached agreement on difficult budgets that cut spending and

raised taxes. In a far more difficult economic environment, they managed to put the State back into budget balance, restore California's credit ratings and kindle an economic recovery.

Californians expect no less today. The test of success in this year's budget process is not which political leader wins or loses, but whether California ends up with a budget that is balanced and fair, one that signals a return to the kind of cooperation in governance that will push California's credit ratings back in line with its fundamental economic strength. I urge you to move quickly to work with legislative leaders to meet that test.

Sincerely,

A handwritten signature in blue ink, appearing to be 'Phil Angelides', is written over a light blue rectangular background.

Phil Angelides
State Treasurer

cc: Honorable Members, California Legislature



CALIFORNIA'S CREDIT CARD STATEMENT

BILLED TO:
The People of California

CHARGED BY:
The Honorable Arnold Schwarzenegger
Governor of the State of California
State Capitol Building
Sacramento, CA 95814

New Charges:	
Economic Recovery Bonds (to cover 2003-04 and 2004-05 deficits)	\$2.7 billion
Legally Questionable Pension Obligation Bonds	\$949 million
Future Obligations to Schools and Community Colleges	\$966 million
Borrowed Proposition 42 Transportation Funds	\$1.2 billion
Increased Vehicle License Fee Backfill Owed to Local Governments	\$475 million
Additional and Miscellaneous Borrowing	\$1.2 billion
Subtotal:	\$7.5 billion

Previous Balance: \$12.5 billion

Total Due (Accumulated Debt): **\$20 billion**

Governor Schwarzenegger's Not-So-Fantastic 2004-05 Budget

Plan Leaves Continuing Deficits

